SENSIENT TECHNOLOGIES CORPORATION

Moderator: John Collopy
April 20, 2016
11:00 a .m. ET

Operator: This is conference # 85889854.

Good morning. My name is Jennifer and I will be your conference operator today. At this time, I would like to welcome everyone to the first-quarter 2016 earnings release conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. To withdraw your question, press the pound key. Thank you.

I will now turn the conference over to Mr. Steve Rolfs. Please go ahead sir.

Steve Rolfs: Good morning. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation. I would like to welcome all of you to Sensient's conference call to discuss 2016 first-quarter financial results. I'm joined this morning by Paul Manning, Sensient's President and Chief Executive Officer.

Yesterday, we released our 2016 first-quarter financial results. A copy of the release is now available on our Website, Sensient.com.

During our call today, we will reference certain non-GAAP financial measures which we believe provide investors with additional information to evaluate the Company's performance and improve the comparability of results between reporting periods. These non-GAAP financial measures remove the impact of restructuring costs, currency movements, and other costs as noted in the Company's filings. Non-GAAP financial results should not be considered in isolation from or as a substitute for financial information calculated in accordance with GAAP. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measure is available on the Investor Information section of our Website at Sensient.com and in our press release. We encourage investors to review these reconciliations in connection with the comments we make this morning.

I would also like to remind everyone that comments made this morning, including responses to your questions, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Our statements may be affected by certain factors, including risks and uncertainties, which are discussed in detail in the Company's filings with the Securities and Exchange Commission. We urge you to read Sensient's filings for a description of these factors and please bear these factors in mind when you analyze our comments today.

Now we will hear from Paul Manning.

Paul Manning: Thanks Steve. Good morning.

Sensient reported adjusted earnings per share of $0.75 in the first quarter compared to $0.76 in the last year's first quarter. Foreign currency translation reduced first-quarter adjusted EPS by $0.03 and in local currency adjusted earnings per share increased by 3 percent. Revenue increased 2.4 percent in local currency driven by strong revenue growth in both the Color Group and Asia-Pacific.

Adjusted operating income was effectively flat with last year in local currency as strong performances from the Color and Asia-Pacific groups were offset by the normalization of corporate costs and the soft results from the Flavors & Fragrances Group. Foreign currency translation reduced both revenue and adjusted operating income by approximately 4 percent in the quarter.

Sensient's Color Group is a global leader for food and beverage colors and we have the unique ability to provide both synthetic and natural color solutions to our customers. We also have strong capabilities in cosmetic ingredients, specialty inks, pharmaceutical excipients and industrial colors.

The Color Group had a very good quarter led by strong performances from the cosmetic and food color businesses. In local currency, revenue for the group increased 8 percent and operating income increased 10 percent. The group's operating margin was 22.1 percent, up 60 basis points from the comparable period last year.

The cosmetic business reported double-digit growth in both revenue and operating income driven by new product introductions. The food color business also performed very well, reporting high single-digit profit growth.

Specialty inks business showed improvement over its fourth-quarter results and is generating new wins. This business has moved past it issues from last year and we are on track for sequential improvement in both revenue and profits over the remainder of this year.

We continue to see very strong interest in natural colors for food and beverage applications. Over the last year, many of the leading consumer product companies made public commitments to use natural colors and other natural ingredients in their US products. We have made significant investments in our natural colors business and we are actively assisting our customers in making these conversions.

Our natural color sales are showing strong growth with double-digit sales growth in the quarter. We had significant wins in North America over the last few quarters and both the number of natural color projects and their value have increased significantly over the last 12 months. Sensient is the market leader for food and beverage colors and we are well-positioned to lead the conversion to natural colors over the next few years.

On the last call, I stated that I expected the Color Group to deliver high single-digit profit growth in local currency in 2016. I am confirming that expectation, and I also expect Color to achieve year-over-year margin improvement for the remainder of the year.

In addition to the strength in the cosmetic and food colors businesses, we expect to see more wins from natural color conversions, and our specialty inks business is progressing in line with our expectations.

Flavors & Fragrances Group have strong capabilities in sweet, beverage and savory flavors, natural ingredients and fragrances. We are progressing with our efforts to shift the group's product mix from simple ingredients to more complex flavors, flavor systems and fragrances.

We are also making progress with our restructuring program and other efforts to lower costs. The combination of upgrading our product mix and reducing our cost structure will enable us to deliver sustainable profit growth and additional margin improvement.

We are progressing with our restructuring activities. We stopped production in two facilities in Canada and two facilities in Europe last year. We have one more facility to consolidate in North America, and we expect to complete the production transfers by the end of this year.

As I have noted in previous calls, the dollar has strengthened considerably since we initiated the restructuring program, and it has reduced the US dollar value of our original savings estimate. We have mitigated the impact of the strong dollar by identifying additional cost-saving opportunities and implementing price increases. As a result of these actions, we still expect that the total benefit of the plan to be approximately $30 million.

Through 2015, we have realized approximately $12 million of cost savings, and we expect to achieve another $6 million to $7 million of incremental savings this year. The full impact of the annual cost savings will be realized beginning in 2017.

The Flavors & Fragrances Group faced a number of challenges in the first quarter and its results did not meet my expectations. In local currency, revenue is off approximately 1 percent, and operating income is off by approximately 7.5 percent compared to last year's first quarter.

Several items contributed to the first-quarter performance, including a limited supply of dehydrated garlic, order timing and transitional issues related to restructuring. The group is moving past the restructuring issues and our garlic supply issue will become better in the second half of the year. We think Flavors & Fragrances can overcome the first-quarter results, and we are maintaining our expectations for high single-digit profit growth in local currency for the year.

The Asia-Pacific group had a strong quarter, reporting revenue and profit growth of 9 percent and 13 percent, respectively, in local currency. We are increasing our presence in this region, adding more technical and production capabilities to serve these dynamic markets.

We opened our R&D center in Singapore in the first quarter, and this facility gives us state-of-the-art capabilities that will allow us to work more closely with customers in the region. We are also increasing our production capabilities in Asia-Pacific. These initiatives will reduce both production and logistical costs and will shorten the leadtimes for key products sold throughout the Asia-Pacific markets. We see a lot of positive indications in our Asia-Pacific business and I expect them to achieve and potentially beat my stated expectations for high single-digit profit growth in local currency for 2016.

Over the past few years, Sensient has made several changes to increase the connection between pay and performance. We have changed the mix of our long-term equity incentive awards so that 100 percent of those awards consist of performance stock units. Only 15 percent of the Fortune 500 companies issue 100 percent performance equity awards to their CEOs, and only 12 percent issue 100 percent performance equity awards to their other named officers. We believe this change in our program combined with our robust stock ownership and holder retirement requirements closely align our executive compensation with shareholder returns.

Corporate costs were up from the first quarter of last year primarily due to a more normal level of performance based compensation. As I noted last year, our corporate costs were down significantly in 2015, primarily because our performance-based compensation was unusually low. This year's first-quarter results represent a normal level of corporate costs, and on a quarterly basis, we expect corporate costs to be around this level for the remainder of the year.

We repurchased approximately 250 shares of the Company's stock in the first quarter, and since beginning of 2014, we have returned almost $450 million to shareholders via share repurchases and dividends. During the same period, we have invested more than $150 million back into our business via capital expenditures and we have made an acquisition in our inks business. We will continue to take a balanced and prudent approach to our capital allocation strategy, which includes evaluating share repurchases on an opportunistic basis.

The Company has made several enhancements to its corporate governance practices, including forward refreshment. We appointed two new independent directors to the board in 2015, and we have now added six new directors in the last four years.

We had mixed results in the first quarter. Both Color and Asia-Pacific showed very strong growth and each group is on pace to achieve its 2016 growth targets. In the Color Group, the Cosmetics and Food Colors businesses each posted very strong results and we saw the sequential improvement that we projected from the specialty inks business.

I was disappointed with the Flavors & Fragrances Group's first-quarter results, but we have the infrastructure in place to drive growth and margin improvement. And in local currency, we expect to achieve high single-digit profit growth this year.

I am confident in our strategy and we are maintaining our adjusted EPS guidance to be between $3.15 and $3.25. I'm very optimistic about the Company's future.

Steve will now provide you with additional details on the quarter.

Steve Rolfs: Thank you Paul. Sensient reported revenue of $342.5 million and $346.2 million in the first quarters of 2016 and 2015 respectively. Operating income was $47.5 million in the quarter compared to $46.4 million in the comparable period last year. The operating income results include restructuring costs of $3.3 million in this year's first quarter and $7.1 million in the first quarter of 2015. Excluding these costs, adjusted operating income was $50.9 million in the quarter and $53.6 million in last year's first quarter. Foreign currency translation reduced both revenue and adjusted operating income by approximately 3.5 percent in the quarter.

First-quarter diluted earnings per share from continuing operations were $0.69 compared to $0.65 in last year's first quarter. Restructuring costs reduced earnings per share by $0.06 in the quarter and by $0.12 in the comparable period last year. Adjusted earnings per share from continuing operations were $0.75 in the quarter and they were $0.76 in the first quarter of 2015.

Foreign currency translation reduced adjusted EPS by 4 percent, or $0.03 per share. In local currency, adjusted earnings per share grew 3 percent.

Cash flow from operations was $46.2 million in the quarter, up significantly from the $30.6 million generated in last year's first quarter. We remain focused on reducing working capital balances, and these efforts contributed to the improved cash flow this quarter.

Capital expenditures were $14 million in the quarter, and we expect capital expenditures to be between $75 million and $85 million for the year.

Our balance sheet is strong. Debt to adjusted EBITDA was 2.6 at the end of the first quarter, and we plan to keep debt levels in line with an investment grade profile to maintain the flexibility for capital expenditures, dividend payments, share buybacks and acquisitions.

Thank you very much for your time this morning. We will now open the call for your questions.

Operator: At this time, if you would like to ask a question, please press star and then number one on your telephone keypad. Your first question is from Brett Hundley, with BB&T Capital Markets.

Brett Hundley: Paul and Steve, good morning guys. Thanks for taking my questions. The first one, I think I very much appreciate and understand the answer to this but I just want to ask it for clarity. So as far as keeping guidance at the same range, currency, at least by our measure, has moved more favorable for you guys. It's still headwind but it's much more favorable relative to where it was previously. At the same time, you can't go whipping around guidance based upon where currency is. But I just want to get a sense from you that if ForEx stays in a relative band as to where it is now, would there potentially be upside to your guidance range, and also potentially upside to some of your cost savings targets?

Paul Manning: The short answer is yes for both. We think right now certainly we've seen some improvements. In other words, the dollar has weakened to certain currencies for which it had strengthened considerably in the last couple of years, most notably the Canadian dollar. We see some reverse in a few other currencies. But we had estimated for the year approximately $0.15, but to the extent the situation would improve, yes, I would expect that we would be better positioned to reflect that in our EPS guidance for the year. But 8 percent to 11 percent is where we came in in the range for local currency, so I think we will certainly -- local currency normalizes all these discussions. But sure. With respect to as reported EPS results, we would certainly be consistent with where we framed up the currency for the year.

Brett Hundley: OK. I appreciate that comment. And then guys, your colors performance was fantastic, frankly. I mean your topline growth, taking out currency, very, very strong. Your margins were much better than anticipated. While we fully expected you guys to get back to 22 percent, we just didn't see it happening this quickly.

And you called out cosmetics. You also called out food and beverage. I'm interested in the food and beverage commentary, given natural conversion that's taking place. And I'm really trying to understand natural conversion in North America, and if we want to use the whole innings discussion, kind of where we are as far as progression within North American conversion, and kind of where the big spots are timing-wise? Do you think this is something that's really going to gain steam later this year? Are we seeing it now? Just you can put some parameters around that. And then also if you can just talk to the sustainability on the cosmetics side, what are the real benefits there? Are they just new product introduction, or is it something more structural? I appreciate it.

Paul Manning: Sure. So, let's start with the natural food colors piece first. I think that, to answer the first part about what inning, I'll answer it this way. About 30 percent of the products in North America would contain a natural color. So one could say it's about the second or third inning from that standpoint.

Another interesting fact that I could give you is approximately 3/4 of all new launches contain natural colors. So I think you have that as kind of the quantitative background of what we are talking about here.

Now, what do we hear from customers and what has been our specific experience I think is very consistent with that. It's broad-based. It's large CPG companies. It's regional companies. It's local companies. It's drinks. It's yogurts. It's candies. It's across the spectrum of food. It's very exciting, and I think, quite frankly, there is a good analogy that this is very much a tipping point that, sure, there have been activities and last five or six years, a little bit here, a little bit there, but I think, with the number of large influential CPG companies issuing press releases to the effect of we're going to convert to natural colors and we're going to do so by the end of 2016 or 2017 on these very specific products, that has created a tremendous momentum for those who perhaps were on the fence or those who were deliberating on it such that, from my standpoint, this is inevitable. And the inevitability is that I believe probably 75 percent, 80 percent of this market would be natural colors in the next several years.

You're never going to have 100 percent conversion, and I don't think anybody would expect as much. But certainly we see broad-based conversion. We see a tremendous amount of interest.

What we also find is that, in some of these conversions, if they are not done correctly, there can be some impact on the brand. In other words, if customers select the more diluted watered-down colors which you may see out there in the market not from us but perhaps from some others, those products don't do as well in the market. But when the consumers, the end customers, you and me buying products, see colors that are equally as vivid and equally as interesting as synthetic colors, we have seen a lot of evidence that suggests that those brands, because they can still show those vivid colors but declare that they are natural colors, those brands do very well. And I'm talking about brands that have been around there for a long time are getting a nice boost from this. So I think that kind of tends to build on this conversion, because it's generating success for those customers.

So, I think with all the investments in product development and production that we have taken over the years, all those elevated capital expenditures that we've made for the last five or six years, many of which and much of which was made in colors, was very much in preparation for this moment in time. So I think we made some good decisions there and we are seeing those benefits.

Taking it over to the cosmetics side of things, your question was can that be sustained. And I believe the answer to that is yes. Cosmetics and personal care, however you want to define the market, it's a very -- it's a significantly sized market and there is a significant pace of new product introductions.

Look no further than commonly consumed makeup. There is a constant change in those portfolios, upgrading the portfolios. The end consumers are very interested in sustainable and natural products. They are very interested in removing products that they don't like in those -- whether it's a lipstick or an eyeshadow or you name it. And so that is probably one of our strongest product development and innovation driven businesses in the Company. And we have spent many, many years building that program up and turning that into what it is today. And the market is very, very accommodative to that because, again, they are always changing, much of it consumer driven, some of it governmentally driven. And so there is going to be a constant need to continue to improve performance on these products because the end-user always want something more. If it makes me look 40, I want it to make me look 30. And you can apply that to foundations or really any other personal care products.

So it's a tremendous market, it's a great market for us, and I think here again, with our capital investments -- and going back to the acquisitions we made in cosmetics, I think these were all very well placed, and I think they fit in very nicely today and we are seeing those benefits in this market as well.

Oh, and one other thing, just for everybody's benefit on this one, in the script, I think, when I was talking about the buyback, I said 250. It was 250,000 shares. So just to clarify that for everybody's benefit. But go ahead.

Brett Hundley: I appreciate it. And staying on that theme within colors, it's interesting what you mentioned about capabilities, because one of the things I hear from some of the private guys in the space, and some publics as well, is that there's obviously a key focus on these smaller, faster-growing customers right now. Everyone is talking about that as an opportunity. But even beyond that, there is a real focus on having a number of capabilities internally to not only to be able to help smaller customers, but, as you mentioned, also be able to help on the conversion side and understand reactions between different ingredients.

And organizationally, it seems to me that Sensient has a real competitive advantage there just in the diversification that you have. You're the largest player that offers both flavors and colors. You understand that interaction really well. But technically and operationally, do you think your company is there to win? You have the capabilities, but technically and operationally, can you speak a little bit about that?

Paul Manning: I think that the reason we are successful, and the reason this company makes money, is because we are an applied science company. Now, that's a fairly broad statement, but what it's meant to tell you is the products are important and they are very critical to the success. The new products we develop are very critical. The types of customers we elect to target and market to and develop products for also very important.

But fundamentally there are a lot of companies that make products, but what are they helping the customer to do with that product? And I think really this is where we drive a lot of the success in our business. So in every model where we can do that, whether it's food colors or cosmetics or flavors or inks, demonstrating how the products work for that customer either in the presence of these other ingredients, based on shelf life considerations or storage considerations, based on how they produce the product and the complications associated with that, those are three of the more important factors that ultimately say if you are an applied science company, in other words you can show your customer how your products work in their applications, that's a very, very powerful core skill, capability, value of our company. If you are just a company that's going to go out there and try to peddle a product, sure, you may sell that but there's a lot of companies that can do that.

So I think really where we are today and why I give this guidance and why I feel confident is because, at its foundation, that is the organization we have built and that is the organization we continue to add onto and to enhance through innovation, through expansion of production, through acquisitions.

So I think that, yes, we are very well positioned in a lot of these businesses, and the more interactions we can establish between our businesses, the better, so color and flavor together, cosmetic and fragrances together. These are very, very powerful connections to a consumer base that -- to a customer base who more and more is looking to its suppliers to do a lot of its development for them.

Brett Hundley: And then just one more from me and I'll yield the floor. Paul, you went through the margin transition in colors. You of course helped lead that effort. And the flavors restructuring has had a different feel to it, to this point. At least, in my opinion, it's had a more challenging, difficult feel. And I know this is top of mind for a lot of your shareholders. I receive a lot of these phone calls with focus on that. And I think your results in flavors were indeed a little bit disappointing this quarter, but not overly worrisome in our eyes. They missed our expectations slightly and you guys had talked to some of the challenges coming into the quarter on that side.

But as it relates to just the restructuring itself, do you feel like you guys had to move too quickly on this and you didn't fully appreciate all of the moving parts that would come out of this? Clearly, you are still targeting the same endpoint margin-wise for that business as what you did in colors and I think your confidence level remains high. But can you give us a sense of really when this momentum starts to change? It sounds like, as you get around the last plant closure this year heading into 2016, you are expecting to see more benefit there. But can you just address that as to kind of maybe how it might be relatable and some of the things you are finding as you go through this?

Paul Manning: I would say that restructuring is hard no matter where you are. And in whatever industry you are in there's always complications. We deal with customers who routinely are acquired by another company and they say, hey, we are in a restructuring phase, we'll talk to you next year and in a lot of ways business stops. I would say that our restructuring from that standpoint, yes, it's very complex. It's not just taking three widget plants and converting them into one widget plant. You're taking products that perhaps have not been made in one plant, and now you're going to move them over there. You've got a lot of new people.

Moving a specialty and fine chemical from one plant to the next, you don't just buy the same equipment, turn the button and it works. It's science. And so science, there is oftentimes some art associated with it. So as you saw here in Q1, and as we commented on a little bit, you're going to have some complications, and we're not -- I am not going to hide that. We had some yield issues in some of our plants. We had overruns on some of the costs. I share those as restructuring startup complications but, again, I think many of those we got past, and again, we hold to our and I hold our guidance for the year.

But restructuring alone is one thing. But restructuring in the context of really redefining a strategy for a business, adding a lot of new people, moving a headquarters, introducing a tremendous focus in a lot of areas that we have not historically had in flavors is a fairly significant undertaking. And I think we showed very good signs of progress last year in 2015. It's never as good as I want it to be, but I think certainly it was a shift in momentum.

I would call Q1 2016 as a bump in the road. And I think Q2 and beyond is going to be quite good. I see a lot of progress. And based on the things that I see, that's why I feel very comfortable giving you that projection for the rest of the year.

And you look at our history. We did a different kind of turnaround, but we made a substantial improvement to colors. We've made a substantial improvement to inks. We've made a lot of governance changes. We've made a lot of changes to corporate. And so I think I guess as I would talk to an investor, I would say they should feel confident that we are well-positioned to pull this off, because we've pulled off very similar things in different parts of our business. And so to that end, I think, yes, getting through restructuring will be a profoundly important part of this evolution of the flavors group because it is. It's very distracting. It's very challenging. It doesn't go perfectly. But we've got through the bulk of it. That's the positive. We have one more plant, and we have had a lot of time to work on that plant, a lot of preparation, so I think we're going to be very well positioned when we have that consolidated by the end of the year. And so, no, I feel very good about this. As you probably saw, I bought another chunk of stock myself in the last quarter, because I perhaps see things that not other people see. And I see the potential of the business and the fundamentally good foundation we have, and I see there's going to be a lot of continued improvement in flavors and continued sustained results in Asia-Pacific in colors.

Brett Hundley: Thank you much.

Operator: And our next question comes from the line of Mike Sison, with KeyBanc.

Mike Sison: Hi guys. (Technical difficulty) quarter. You had mentioned that you made significant investments in natural colors. Could you remind us what you've done? Was it new capacity, more people count? And given the growth potential for the business, at what point will you need to make more investments?

Paul Manning: Yes, that's a great question. I think the investments really go back to our acquisition program of several natural color companies in the late 1990s. So I think we were somewhat -- as we looked into our -- the market at the time, we saw an inevitability to natural colors in many markets. So that's really where it started.

Obviously, over the years, we've added a tremendous amount of capacity. We've also added a lot of very unique technologies that nobody else in this industry has, which are enabling us to have really a lot of superior products today, not the dull, watered-down stuff that you kind of see out there, but the more comparable to synthetic colors that consumers would expect to see. Much of this has been driven from these production type technologies, but we've also made a huge investment for at least the last six or seven years in new product development with a broad theme of how do you make a natural color look, act and cost about the same as a synthetic color? And that's been a big focus for our innovation, and I think really at the root of a lot of the success we are having today. All those things continue.

We watched capacity, to your point, very, very carefully, not only capacity on production but capacity within the supply chain. And so we've got very strong ties to our customer base, and I think we've got a lot of projects, but certainly within each one of those is maintaining that level of infrastructure so that, when there are more and more large conversions, we are well-positioned to make those. But we've had some press releases over the years, expansions within Mexico, the US, Germany, Italy, really -- China. All over the world, we've made these investments in anticipation of this moment.

Mike Sison: Great. Could you remind us I guess how big your natural color franchise is now? And then I guess we should see this as something that can continue to grow double digits for quite some time?

Paul Manning: That's certainly my expectation. As I mentioned in the first question from Brett, it's really pretty broad-based across a lot of different customers and product segments. And we've got a fairly significant sales and technical organization throughout the world, which is going to be very, very important to capture the lion's share of these wins. But natural colors, as you look at the overall food colors part of our business, natural colors is I want to say closing in on about 60 percent of that overall total of revenue.

Mike Sison: OK. Great. And then shifting to –

Paul Manning: A couple years ago, I think it was about 40 percent, so it's a big change.

Mike Sison: OK. And then when you think about -- you talked about, in flavors, that you want to move into from ingredients to more solutions. Do you have a naturals offering that you are working on in flavors as maybe the avenue to make that shift?

Paul Manning: Oh, yes, absolutely. In fact -- and it's interesting because it's not talked about as frequently in the market as, say, a natural color, at least in some of the markets we deal in. But clearly there is an interest from customers in a more natural profile for many of their ingredients, including color, including flavor. So you sometimes see this described in the flavor industry as an extract or a botanical, or even just as a natural flavor. So, yes, certainly that is a big part of our emphasis with our customers as well. And you see a very strong impact of that or very strong interest in that, particularly in the beverage part of the business. But certainly even within segments that are traditionally very process-oriented, like savory, there's a tremendous interest there to have more natural flavor, natural ingredient profile.

Mike Sison: Is it an opportunity for acquisitions for you?

Paul Manning: I look at a lot of –

Mike Sison: (multiple speakers) is that something you need to acquire or can you do it organically I guess is the question?

Paul Manning: You know, acquisitions I think can always fill in very specific gaps that you have in any number of your portfolios. You saw the one we made last year in inks. That filled a very specific gap in our portfolio. So to that end, sure. There is no one company that has a monopoly on all technologies and all production processing techniques within the industry. So, we would be very open to an acquisition in flavors or any other of our segments, quite frankly.

Mike Sison: OK. Great. And then a follow-up on your outlook for Flavors & Fragrances. You started the first quarter, as you noted, a little bit more challenged on a local currency basis, but you've maintained I think high single-digit operating income growth for the year. That would basically assume double-digit growth for the rest of the quarters. Can you give us a little bit of color why the second, third, and fourth quarter will be so strong, given the sluggish start? Do some of the headwinds go away? Maybe cost savings might flow through, but any thoughts there?

Paul Manning: Yes. I think it's the acceleration of new wins. One of the comments I made on our last conference call for both colors and flavors was that most of the wins that we were anticipating for the year were very much back half in terms of when they would close.

I would tell you that this garlic shortage that we've had for Q1 and Q2 we will not have for the second half of the year. And that was a significant impact in Q1. That was certainly in the seven digits in terms of its impact. So, I think you -- we are expecting to erase that for each of the third and fourth quarters.

I think we've had a lot of -- I mentioned order timing, many of which we've seen those come through in Q2. And then, again, a lot of these restructuring benefits were being watered-down by some of the operational challenges that we had in these plants. And so as we've addressed those and we've moved past those, we would then see the full impact of those savings that we would expect to be getting as well. So those are four or five of the factors.

But the thing I want to emphasize over and over and what I emphasize in the business is it's all about new wins. And that's what is ultimately going to move us in the right direction long-term -- new wins, new wins utilizing new and different technology platforms. Certainly, the costs are going to benefit us. A lot of these other factors that I mentioned are going to benefit us, but they are not going to benefit us for the next five or 10 years. And the model you hear me talk about and what we are generating out of Colors right now was really based on the programs we put in place over the last several years. And so this is why I see stronger and much better potential for new wins within flavors as we move forward because it does take some time; it does take some time to change customers impression of you.

Six years ago, nobody even knew we sold natural colors. And today, some people would wonder if we even sell synthetic colors. So you can change an impression in the market, but it just takes some time, at times, and but once you do, and again you go back to the foundation of this business as an applied science company, when you can demonstrate that kind of success with the customers, now you've got a program for long-term success, and I think that's very much the trajectory we are on in flavors right now.

Mike Sison: Great. Thank you.

Operator: You do have a follow-up question from Brett Hundley, with BB&T Capital Markets.

Brett Hundley: I appreciate you guys taking some follow-ups. I just wanted ask you, Paul or Steve, in Q1, you started reporting some of your Asian color operations in your Colors segment instead of Asia-Pacific. And as I look at your reclassified numbers on this basis for 2015, your Q1 2015 Colors segment margin actually takes a 20 basis point hit relative to what you had been reporting for Colors previously.

So my question is, if this makes sense, you reported a 22.1 percent operating margin for colors in Q1 this year. I'm actually wondering if that margin was a little bit diluted by the move that you made from your Asian business. Did you recognize anything like that at all?

Steve Rolfs: So, first, just to comment on the overall change, we've had some changes in our organization and reporting has followed that. So, we are trying to get better cooperation between the color group, and we think there are opportunities in north Asia, China in particular, that we are not taking full advantage of. And so we are moving that into the Color Group, so that's the reason for the change. You know, the revenue of that piece in the first quarter is about $3 million. It's a little bit -- the margin is a little bit below the overall Color Group, but it's pretty comparable. So I'm not -- go ahead.

Brett Hundley: And Steve, I appreciate that. What is the ultimate goal or expectation for the Asia-Pacific segment? Do you ultimately see that being melded into your two main operating segments, or longer-term would you expect that to remain standalone? One of the reasons I asked that too is I think Paul mentioned in his prepared remarks about increasing some production capabilities there, and I'd love to just hear more about that as well.

Paul Manning: Yes, I'll take the first part and then if Steve wants to add something, we will go that way. But I think right now as we've -- probably over the last four or five years, we've taken pieces out. So we took a cosmetic piece out, maybe four years ago a pharmaceutical piece out, maybe three years ago, and then we took the small piece of food colors out of north Asia.

So where we have identified businesses that are obviously in each of the cosmetic and pharma cases were quite small, so it might not even have been noticed. Where we see opportunities to really further globalize these businesses and create a much stronger tie to the other regions within color or flavor, that's made a lot of sense for us.

At the end of the day, what does Asia-Pacific look like in five years or so? I could still see it operating very much as it does today ex these pieces of food colors, cosmetics and pharma, and then probably also fragrances. So I think that we would still see it because it is a vast region. It's culturally entirely different from any other markets that we operate in. So it still lends itself to some structure that is somewhat independent of Color Group and Flavor Group, but I think, ultimately, for right now, we kind of have a little bit of a hybrid approach where we have taken off little pieces here and there consistent with what we think is going to help mostly with our global customers but also to the extent we can also hook up on innovation and have innovation centers in Asia-Pacific that are linked to our European, Latin American, and North American businesses. So I think, in short, it will remain an Asia-Pacific group, but the composition main change puts and takes here and there over the coming years.

Brett Hundley: Can you get into any particulars on what capabilities you're really looking to expand upon there?

Paul Manning: Well, in some cases, you want to replicate what you have in other regions on some of the more broad-based products. In other cases, where you have a big, significant capital investment in a certain product portfolio, you may not add that to Asia-Pacific as the current point. So I think really we focus on those products that are most sensitive to lead time with the customer. We think about those products that are most sensitive to logistical costs and shelf life considerations. In other words, when you're getting into the world of naturals and botanicals, they don't have the same shelf life as a synthetic product would. So to that end, it's much more practical and cost-effective to make those things locally and even source them locally. So there are some supply chain considerations as well to consider. So those are the many things we think about. I would not anticipate replicating the capabilities of the rest of the Color and the Flavor group in Asia-Pacific across every product, but certainly, again, the products that meets those criteria that I just described would be first in line.

Brett Hundley: That's helpful. And then just two more for me. So Paul, can you give us a window into the changeover that is occurring between solvents and digital on the ink side? I don't have a good feel for it, but I think that it is very important longer-term. And I was just looking to get a quick comment from you on kind of where we are there and what we can see going forward. And then I just have a follow-up.

Paul Manning: Sure. So for the benefit of all, Brett's comment is related to the conversion of inks, industrial inks, what we call our specialty inks, from these traditional analog solvent-based products to a new version of that ink, which is digital, water-based. And so you really have to look at that according to product segments. So there's many different segments within the industrial inks world. There's packaging; there's textiles; there's food products, contact and noncontact; there's furniture. You can kind of go down the line. Anything with color in the world today may very well have been printed by an industrial ink. And so as you can imagine, each one of those segments are on a different conversion trajectory. Textiles has led the way. That's been the focus of our business up until to date, mostly polyester, but as you noted last year when we were losing out on cotton opportunities and we made our acquisition, cotton has also been an important part of that conversion in the world of textiles. Now, maybe 20 percent of that market is converted from solvent to water-based inks, which -- and again, I'm using it -- in my mind, every solvent-based ink is a traditional -- is an analog printing application, which is to say very rigid, very inflexible, not at all consistent with the supply chain needs of the industries today. So say that market has converted about 20 percent to 25 percent to digital. With my expectation it would be 100 percent digital. When? Some would say 15 years, some would say 10, some would say never. Someone say you're always going to have some portion of that that's traditional. But OK. Without splitting hairs, I think we see a nice growth trajectory within textiles for the next many, many years.

As you move over from there, there are other segments that have almost no conversion. So you look at things like, say, furniture and home goods in general. There's maybe a 1 percent or 2 percent conversion to digital, and to some degree that's related to the fact that the inks are not suitable. They don't print with the same characteristics as their traditional solvent-based comparison.

So, the technology will continue to evolve. Our innovation is focused on a number of these different segments for which we believe we can win and be very successful. And in a lot of these other segments, the conversions are just starting. This is why, as I've said a couple times in the past, in addition to the food conversions to natural ingredients, most notably color but also flavor, the strong changes within the personal care market towards more natural ingredients and products that are free of raw materials that many consumers believe to be harmful, there is a tremendous opportunity for Sensient in this conversion to inks. And the opportunities will differ across those segments, but I think we are very well-suited and well-positioned to be quite successful in any number of those segments, which, again, are just getting started in many cases.

Brett Hundley: And maybe you can or can't -- I'll leave this up to you and ask my follow-up. But I personally think that the opportunity can be quite big. Now, maybe it takes 10 to 15 years to develop, or even more. But it might be helpful if you could quantify in some way the opportunity for Sensient. Could it be on the order of a full benefit related to what you're getting from your Flavors restructuring? Could it be much more than that over time? Anything like that would be helpful. And so if you can, that would be great.

But my follow-up was probably more to put Steve on the spot just related to your balance sheet and how you think about share repo. Your Q1 2016 share price was below the average that you saw in Q1 2015 slightly, but yet you only repurchased about 1/4 of the share volume that you completed in Q1 2015. And Paul, I know you think your stock is a good deal here, and I wonder if others start to think that way too. And so I'm curious how you think about cash balances, capital structure and share repurchase. It seems to me that what you communicated earlier on in the year, that you wanted to keep a bit more powder this year for growing your business, but I would just love an update on that. And I appreciate you guys taking my questions.

Steve Rolfs: Sure. So, it's really tied to opportunities. What are the alternative opportunities to share repurchase, and then how attractive does share repurchase itself look?

Keep in mind we have built up our leverage over the last two years. We were -- we had some capacity there, and so some of the share repurchase we've added debt to do that. We are very comfortable with where our leverage is right now, but we do want to maintain flexibility. So if there is an acquisition, we can pursue that. And so going forward, it may be a little bit more closely tied to cash flow barring a change in how we view the opportunities. So in the first quarter, the shares we bought back, we essentially were able to use our free cash flow to fund the dividend and the share repurchase, and there's very little change in debt as a result of that. So, I don't mean to be evasive, but that is the way we look at it, and I think it is a matter of weighing the different opportunities that are in front of us.

Brett Hundley: Thanks again.

Operator: There are no further questions at this time. I will now turn the call back to management for their closing remarks.

Steve Rolfs: OK. That will conclude our call. Thank you to everyone who has listened in today. If there are any follow-up questions, by all means, you may contact the Company. Thank you.

Operator: Thank you ladies and gentlemen. This does conclude today's conference call. You may now disconnect.

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